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Optimism reigns

July 2026

"Perpetual optimism is a force multiplier."

Colin Powell

The "will they or won't they" between the US and Iran has been the focus of markets this past quarter. So far, there have been as many promising starts as disheartening setbacks.

The market has optimistically reacted to each promising sign, it seems, with greater scale than a setback, if the setback was noted at all. Credit spreads continued to grind tighter, and while private credit remains an area of concern, high yield and corporate spreads are nearing all-time tights.

Over the quarter, many equity markets, including the US, hit record highs. Only emerging markets and Japanese equities outperformed US small- and large-cap equities over the quarter. From a sector perspective, internationally, IT, driven by semiconductors, has been the standout performer, followed by sectors traditionally associated with the value complex, financials and industrials. Locally, consumer discretionary rallied, while the local listed real estate sector benefited from a fall in long-end yields.

Investors, to use a baseball analogy, wonder, are we in the seventh inning, or the ninth? In other words, will the optimism continue or are we nearing the end of the cycle?

We think value could remain the go-to international equity market exposure, though, should market participants start to (finally) worry about low growth, the quality complex could rise back to the surface and come back into favour.

Locally, monetary and fiscal policy have been weighing on investor sentiment. Fiscal policy remains loose, with deficits forecast as far as the eye can see according to May's Federal budget, which also included a shift in the tax regime that is expected to have implications for investors. The RBA, while holding at its most recent meeting, retains its tightening bias. According to its most recent statement, it remains ready to fight inflation, which remains above trend.

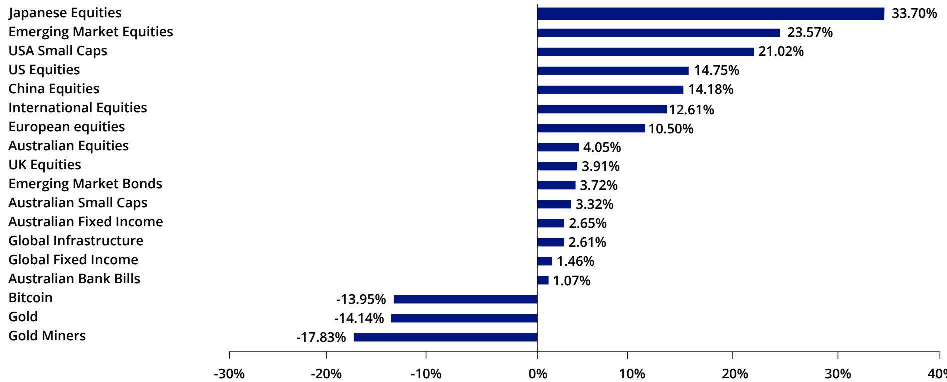
The Fed is also maintaining a hawkish stance, not that you would know what the new Fed Chair, Kevin Warsh, predicts, as he did not provide a dot on the dot plot, though he encouraged his committee colleagues to do so. It was the first time, since the Fed first published dot plots in 2012, that a Fed Chair had withheld their forecast.

This creates uncertainty. Combined with the geopolitical stops and starts, inflation, posturing and tariffs, it makes for an unpredictable future. Markets traditionally don't like uncertainty, but, as we have pointed out in previous ViewPoints:

"Uncertainty actually is the friend of the buyer of long-term values."

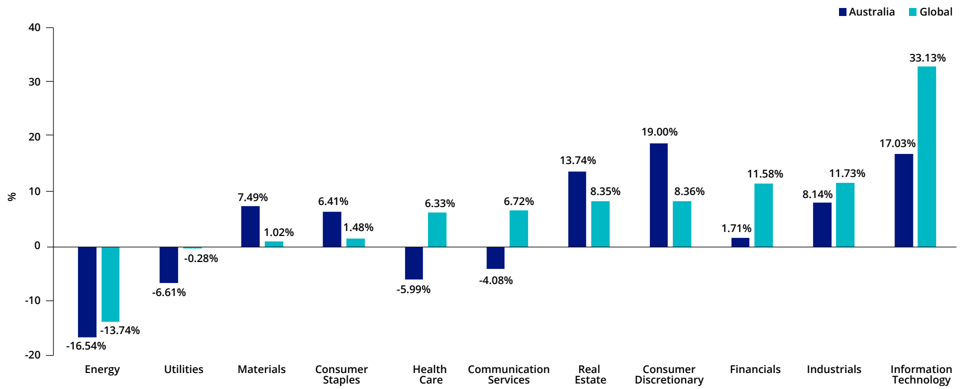
Warren Buffett

Chart 1: Mainstream asset class returns for the quarter



Source: 1 April 2026 to 30 June 2026, returns in Australian dollars. Gold Miners is NYSE Arca Gold Miners Index, US Equities is S&P 500 Index, International Equities is MSCI World ex Australia Index, European Equities is MSCI Europe Index, UK Equities is FTSE 100 Index, Australian Equities is S&P/ASX 200 Accumulation Index, Australian Small Caps is S&P/ASX Small Ordinaries Index, Gold is Gold Spot US$/oz, US Small Caps is Russell 2000 Index, China Equities is CSI 300 Index, Global Fixed Income is Bloomberg Global Aggregate Bond Hedged AUD Index, Australian Bank Bills is Bloomberg AusBond Bank Bill Index, Australian Fixed Income is Bloomberg AusBond Composite 0+ yrs Index, EM Fixed Income is 50% J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan Government Bond-Emerging Market Index Global Diversified, EM Equities is MSCI Emerging Markets Index, Japanese Equities is Nikkei 225 Index. Global Listed Infrastructure is FTSE Developed Core Infrastructure 50/50 Hedged into Australian Dollars Index, Bitcoin is The MarketVector™ Bitcoin Benchmark Rate. Past performance is not indicative of future performance.

Chart 2: Global and Australian equity sectors quarterly performance



Source: 1 April 2026 to 30 June 2026,, returns in Australian dollars. Utilities is MSCI World Utilities Index / S&P/ASX 200 Utilities Index, Industrials is MSCI World Industrials Index / S&P/ASX 200 Industrials Index, Materials is MSCI World Materials Index / S&P/ASX 200 Materials Index, Consumer Staples is MSCI World Consumer Staples Index / S&P/ASX 200 Consumer Staples Index, Consumer Discretionary is MSCI World Consumer Discretionary Index / S&P/ASX 200 Consumer Discretionary Index, Financials is MSCI World Financials Index / S&P/ASX 200 Financials Index, Energy is MSCI World Energy Index / S&P/ASX 200 Energy Index, Healthcare is MSCI World Health Care Index / S&P/ASX 200 Heath Care Index, Telecommunications is MSCI World Telecommunications Index / S&P/ASX 200 Telecommunications Index, Information Technology is MSCI World Information Technology Index / S&P/ASX 200 Information Technology Index, Real Estate is MSCI World REIT Index / S&P/ASX 200 AREIT Index. Past performance is not indicative of future performance.

The seventh inning, the ninth, or is it nirvana?

Of all the moving pieces in the global investment environment, the outlook is increasingly dependent on just one: the outlook for AI.

Traditional macro appears to have taken a back-seat. The world has seemingly shrugged off the ongoing inflation effects and growth drag of the Iran conflict, or it could be that maybe markets are bored with on-again, off-again peace processes and have given up.

Visibility on the outcome of the conflict and what has been agreed remains cloudy.

But a whopping swing in US monetary policy expectations has likewise seen a smallish, rather optimistic reaction. At least, after four years of inflation persistently diverging (upwards) from target, rate expectations now accord with actual textbook policy prescriptions, noting some caveats shared below.

At the start of the year, the market was pricing in between two and three rate cuts in 2026. It is, at the time of writing, pricing in what consensus believes to be more responsible, one and a half rate rises. But other imponderables remain, including:

- gathering debt loads;
- trade and fiscal imbalances; and
- illiquid, non-transparent investment sectors.

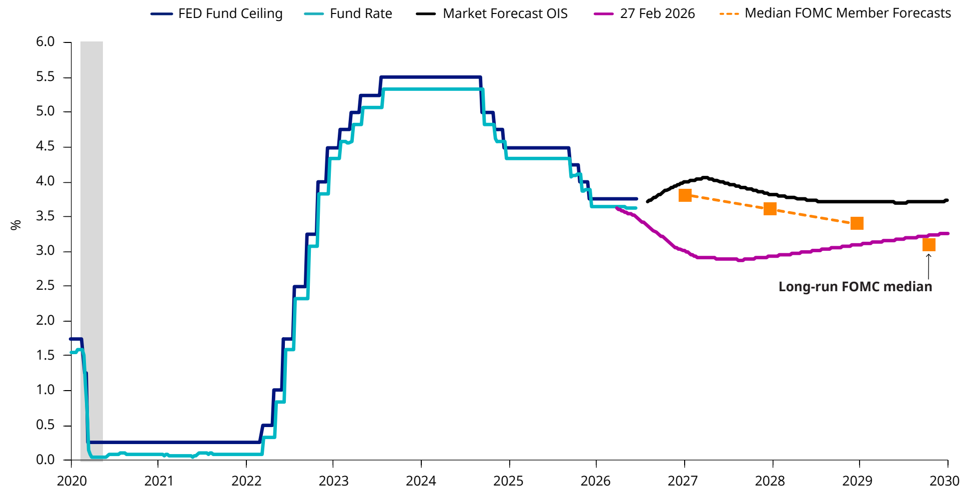
But the biggest of them all is the burgeoning AI sector and its ability to sustain, and then repay, its enormous, ever-growing capital appetite.

The question is whether AI can profitably repay its bets over the near-to-medium term. That would be a gargantuan task.

So, this naturally leads to the question: Is it time to hop off yet? Is it the seventh inning or the ninth? Maybe Baron Rothschild gets the last word: “I never buy at the bottom and I always sell too soon”.

Chart 3: Expectations have swung wildly

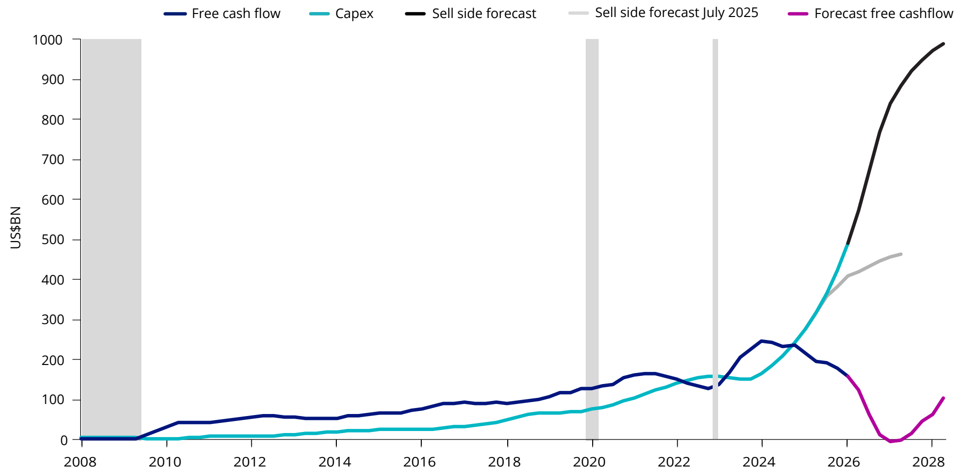
Fed Funds target, market and FOMC forecasts



Source: Bloomberg, National Bureau of Economic Research. Shaded regions indicate US recessions.

Chart 4: AI Cap-ex

Hyperscaler capex and cash flow



Source: Bloomberg, London Stock Exchange Group, National Bureau of Economic Research. Shaded regions indicate US recessions.

Meet the new Fed boss

Confounding a consensus that had already cast him as the administration's compliant instrument, Kevin Warsh used his inaugural meeting to steer the Federal Open Market Committee (FOMC) onto a distinctly hawkish footing. The Committee declined to move on rates, yet the signal was unmistakable: markets promptly repriced toward at least one hike, a striking reversal from the two-to-three cuts discounted at the start of the year and a reminder that the institution's reaction function, not its chair's political provenance, remains the variable that matters.

For a new Fed Chair, credibility is priceless. While his predecessor had the luxury of ignoring above-target inflation by pointing to a soft labour market, a firming of the labour market to robust job growth that looks somewhere north of sustainable, has left Warsh little choice but to sound the alarm.

Of course, wage growth currently remains contained, despite firming job growth.

Perhaps some credit should go to AI. Not for boosting productivity but by frightening workers over future job losses, preventing them from pressing for higher wages.

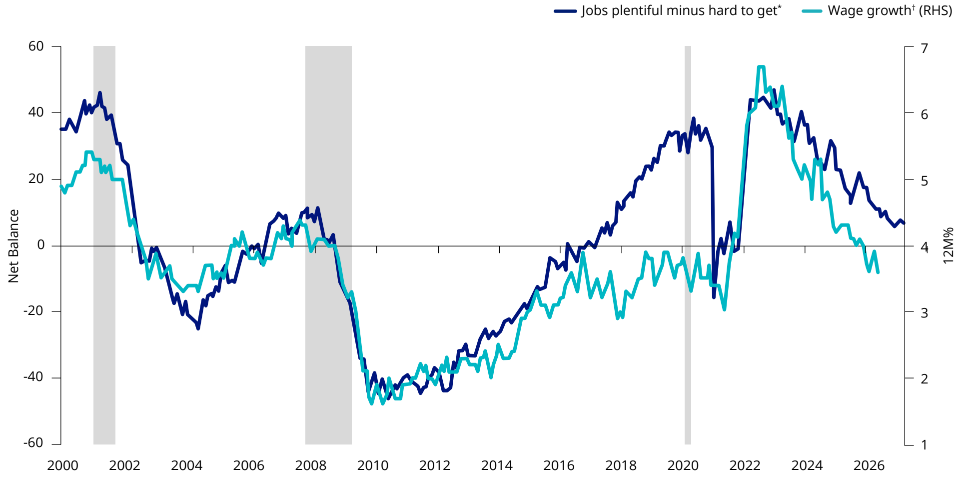
This is only a possible interpretation, but it potentially aligns not just with wage demands being lower than expected for the degree of labour market strength, but also with cratering consumer sentiment (again, well below what would be predicted by other macro variables).

Warsh also used his first meeting to make evident his disdain for forward guidance, favouring a return to obscurantism and maximum flexibility (vale Mr Greenspan). Is it too cynical to suggest this will give him the scope to sabre rattle without actually following through? Well, at least until such a time as cuts are needed. The market remains optimistic.

The sector most at risk from hikes is also the sector carrying the US, and much of the developed world, on its back: AI. With its titanic upfront capital requirements and long-term payoffs far into the future, it is as long-duration as equities get, so susceptible to rising discount rates.

Chart 5: While employment is tight, wages have not grown

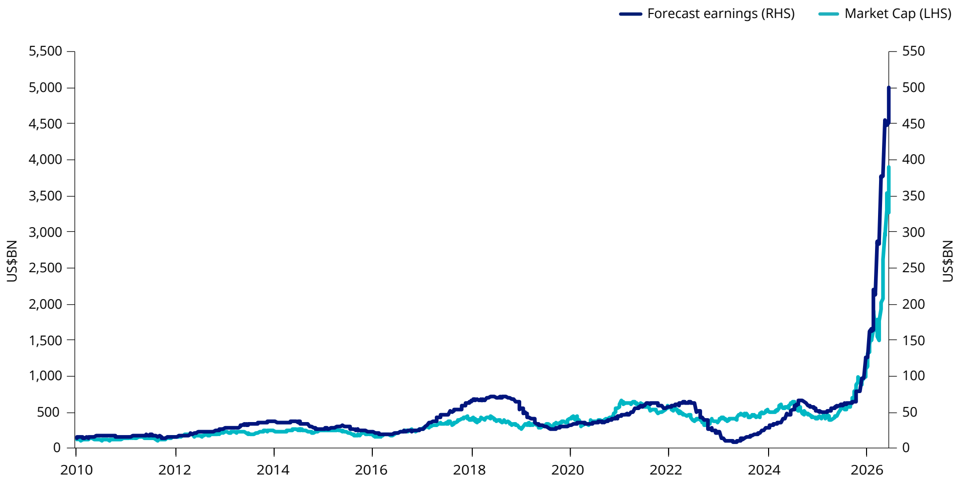
Wage growth and net balance 'jobs hard to get'



Source: Conference Board Employment Trends Index, Atlanta Federal Reserve, National Bureau of Economic Research. Shaded regions indicate US recessions. *Leading by 9M. †Atlanta Fed Wage Tracker.

Chart 6: For some technology companies, high rates not an issue

Big 3 memory chip producers, earnings and market cap



Source: Bloomberg, Institutional Brokers' Estimate System/London Stock Exchange Group, National Bureau of Economic Research. Big 3 are Micron Technology Samsung & SK Hynix.

Red or black?

The AI sector's capital requirements, meanwhile, continue to escalate. Credible estimates put AI capex this year at somewhere between US$750 billion and US$1 trillion, with the trajectory pointing higher still in the years ahead.

Nvidia's Jensen Huang estimates that each gigawatt (GW) of data-centre capacity carries a build cost of US$80–100 billion. With credible forecasts pointing to some 190GW slated between now and 2030, the implied outlay runs to the order of US$15 trillion of capex.

The hyperscalers' free cash flow, meanwhile, is being steadily consumed. Players such as OpenAI and SpaceX, lacking sufficient alternative revenue streams, will be compelled to return repeatedly to capital markets. Within weeks of its IPO, SpaceX intends to tap debt markets for a further, and hardly trifling, US$25 billion in debt funding.

The more cynical observer might ask why SpaceX, OpenAI and Anthropic are all rushing to market at once. Layer on persistent government deficits and illiquid private markets straining for exits, and the result is a near-perfect convergence of competing demands on capital.

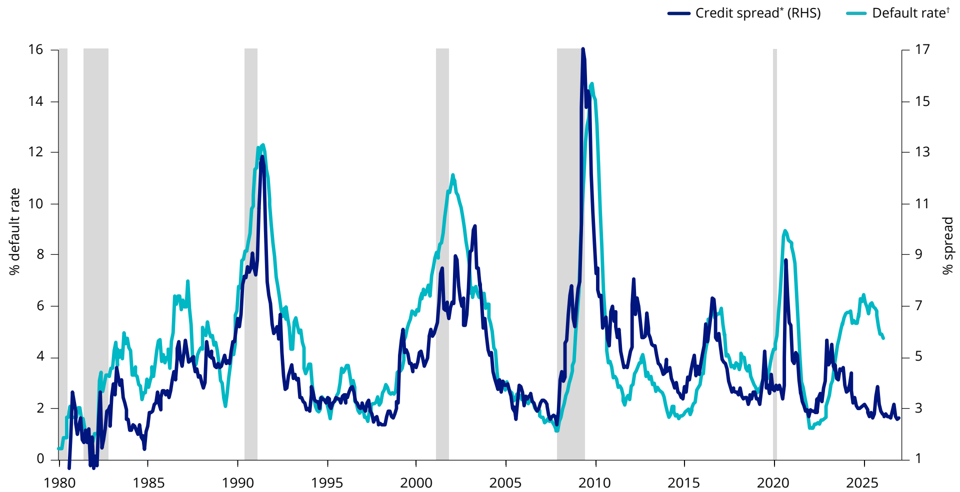
And this is before confronting the more fundamental question of whether the sector can generate the revenue required to earn an acceptable return on that capital. Given the apparently short useful life of GPUs, depreciation alone represents a staggering figure.

Cast back to the dotcom era, when the notion of the 'unicorn', the billion-dollar start-up, first captured the market's imagination. How might a discerning investor have distinguished a genuine unicorn from a donkey? The test, with the benefit of hindsight, was simple enough: weigh the upfront cost of acquiring a customer against annual revenue per customer, multiplied by margin and by annual retention. A ratio above three marked a unicorn; below one, a donkey.

AI firms may now be nearing their own donkey-or-unicorn reckoning.

Chart 7: High yield grinds tighter, but default rates up

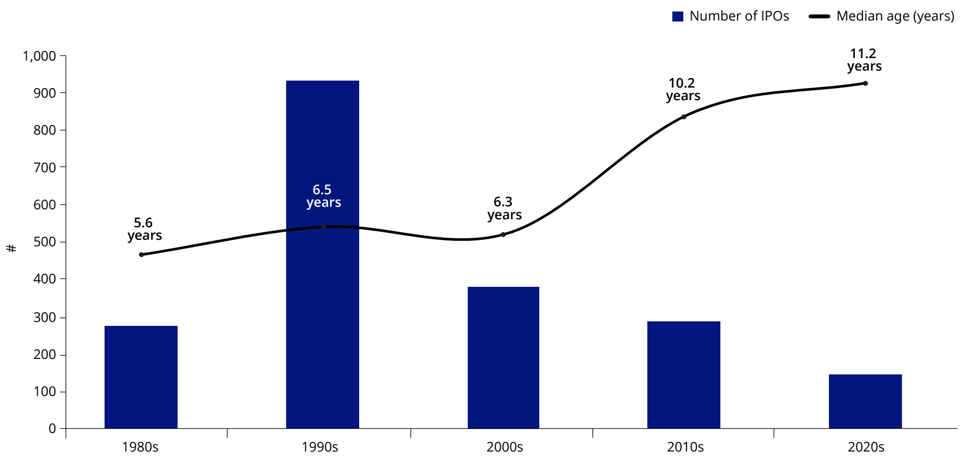
US high yield spread and default rate



Source: Bank of America/Merrill Lynch, Moody's, National Bureau of Economic Research. Shaded regions indicate US recessions.
*Bloomberg HY OAS Linked to BOAML High Yield. Leading by 6 Months. †US Speculative Bonds Trailing 12m Default Rate.

Chart 8: Companies staying private for longer

Venture Capital (VC) backed tech IPOs: Volume and median age by decade



Source: Jay R. Ritter, Director – The IPO Initiative; University of Florida. March 17, 2026.

The return of the unicorn test

Consider the recent trajectory. Phase one was, in effect, loss-leading: entry-level models were offered free of charge and the most capable models made available by subscription at well below cost, the objective being to build adoption.

That phase succeeded. Many organisations adopted the technology wholeheartedly, actively encouraging staff to maximise usage, an entirely rational posture while the marginal cost of additional tokens, under those subscription plans, was effectively zero.

Phase two marks the providers' shift toward an economic return: charging for usage. Given the substantial costs of inference, the appropriate price point remains genuinely uncertain. The shift also produces a pronounced uplift in reported revenue, a figure these companies are understandably keen to highlight as they frame their IPO terms.

Phase three is the more demanding test: customer retention. How will clients respond once pricing approaches, or exceeds, the providers' own costs? The early evidence, admittedly anecdotal, is not encouraging. Some firms appear genuinely concerned by escalating AI bills; others may find the technology so embedded in their operations that the cost of reverting is itself prohibitive.

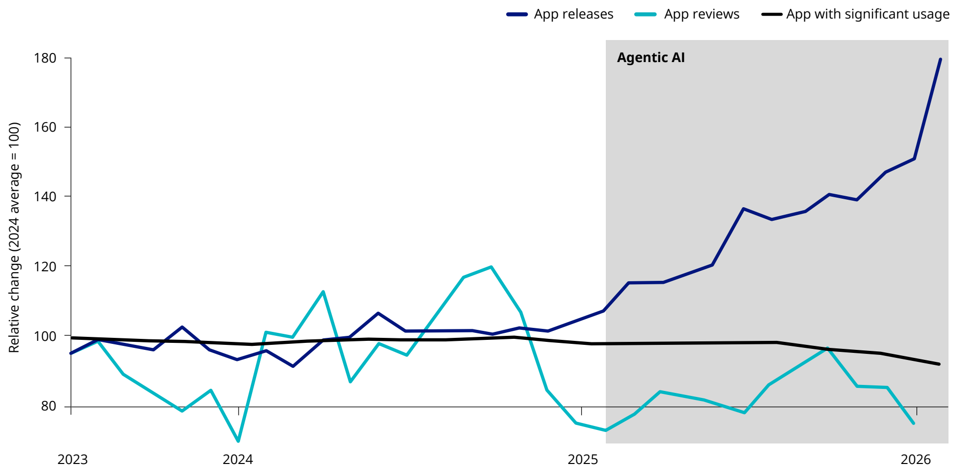
At the same time, a growing body of research suggests that comparatively little of the AI revolution is yet translating into measurable productivity or earnings. A notable NBER study finds that the lower barrier to application development has principally yielded a proliferation of applications for which there is little demand: output has risen, while sales and genuine enthusiasm have not.

Finally, outside the genuine frontier, Chinese models are proving an adequate and in some respects more flexible substitute, at a fraction of the cost. Firms confronting steep AI bills are, on anecdotal evidence, increasingly willing to migrate to these lower-cost alternatives.

Taken together, these dynamics suggest that the steep revenue curves now on display are likely to inflect meaningfully over the coming quarters. For some providers, completing an IPO ahead of that inflection may well prove critical.

Chart 9: App releases to the moon, enthusiasm grounded

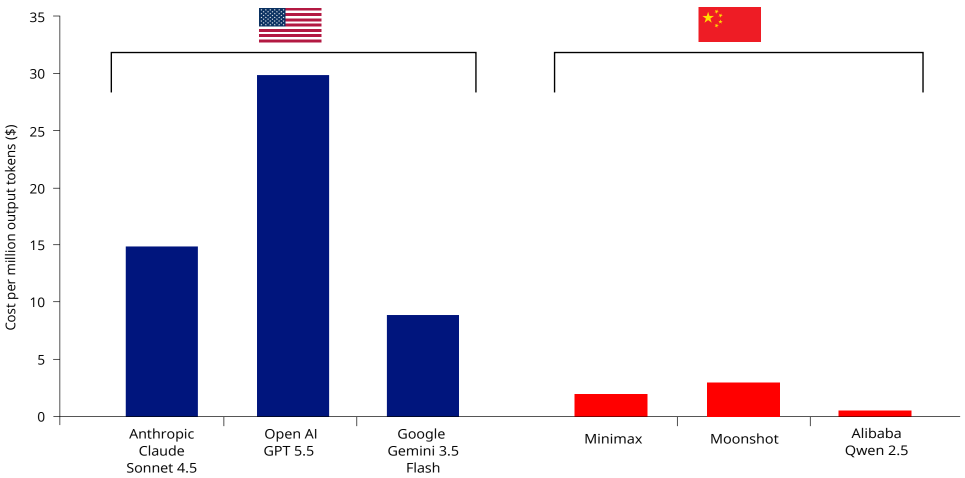
Relative change in monthly volumes of iOS app releases and reviews (2024 average = 100)



Source: Financial Times, National Bureau of Economic Research; Writing Code vs. Shipping Code: Productivity Effects Across Generations of AI Coding Tools (Demirer et al, 2026).

Chart 10: Made in China

China versus US token cost



Source: CNA, Collin Furtado, China's cheaper AI tokens a double-edged sword for Asian businesses, 16 June 2026.

Back to the question

Perhaps all of this offers some guidance on the original question: are we in the seventh inning, or the ninth?

While revenue trajectories continue to climb near-vertically, the thesis remains intact. On our reading, this is still the seventh inning, not the ninth.

Should corporates rein in AI spending over the next six months, that trajectory would falter and with it, the prospect of meeting ever-rising return expectations.

Such an outcome would not remain contained within the AI sector. Through capex, AI is supporting real growth; through elevated share prices, it is driving a wealth effect that in turn underpins consumption. Recall that seven AI-related companies account for roughly a third of the US equity market by value and through data-centre construction, it is sustaining substantial volumes of credit, private credit included.

Were the bubble to burst, the consequence would be a marked hit to real growth and a materially elevated risk of financial accidents.

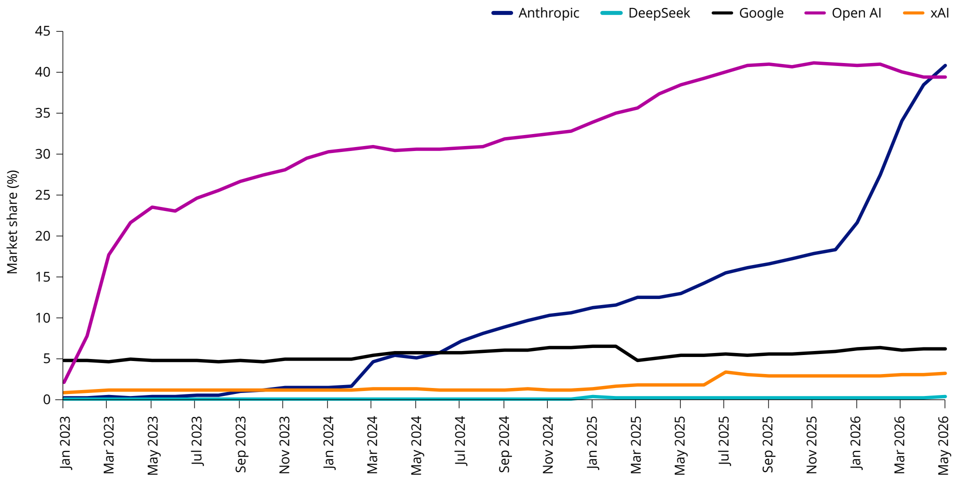
According to Fitch Ratings, the US private credit default rate already sits at a record high. Redemption queues, which we have monitored closely, continue to lengthen and private equity continues to struggle to source profitable divestments, with average holding periods extending further. The scarcity of exits is now prompting some managers to borrow against future carry.

Nor would the consequences be confined to the US. Most visibly, second-tier semiconductor names have driven the Korean market up some 100%, with Japan and other Asian markets also benefiting. The data-centre build-out has lifted capex as far from the epicentre as Australia.

Investors would do well to remain attentive. Selectivity and patience will be paramount.

Chart 11: Investors in one upcoming IPO will hope this trend continues

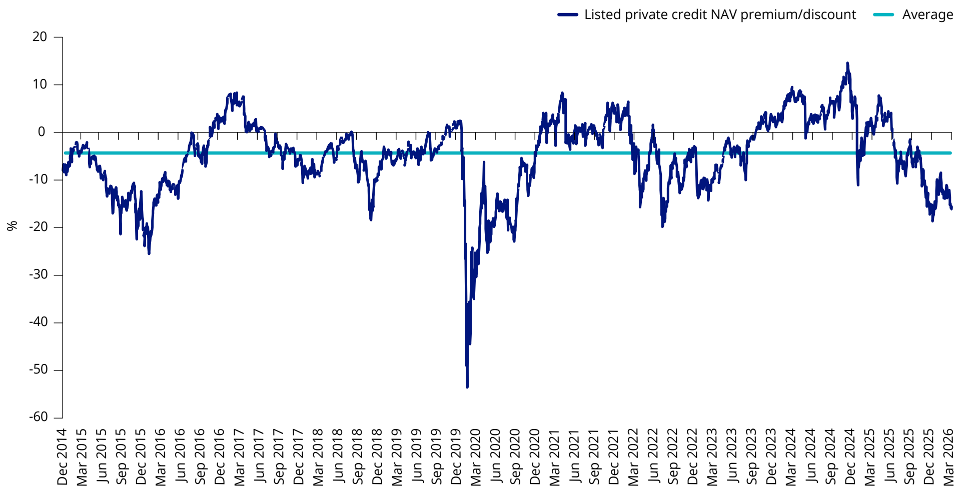
Share of US businesses with paid AI subscriptions



Source: Ramp AI Index, business spend data from RAMP.

Chart 12: The impact of redemption queues and associated investment

LPX Listed Private Credit Index – Net asset value (Premium/Discount Level)



Source: LPX AG. Data to 24 June 2026.

Japan's cautious growth and policy path

The effects of the fragility in markets can be seen in Japan's continuing cautious policy response. Despite inflation around target, moderate growth and a firm labour market, policy makers in Japan continue to proceed cautiously: real policy rates are still negative and fiscal policy remains growth supportive. All of which has proved positive for Japanese equities, if not so much for the yen.

The Bank of Japan (BoJ) has made it clear that it sees the path for rates to continue up. But, despite growing pressure from the US (apparently tariffs didn't fix the trade deficit, who knew?) Japanese authorities have no intention of rocking the boat by unilaterally acting to boost the yen.

Japan remains a massive net creditor to the rest of the world, in the top 3 with China and Germany. Much of this consists of portfolio investments of individuals, insurers and pension schemes that invested overseas in the years of zero asset returns in Japan.

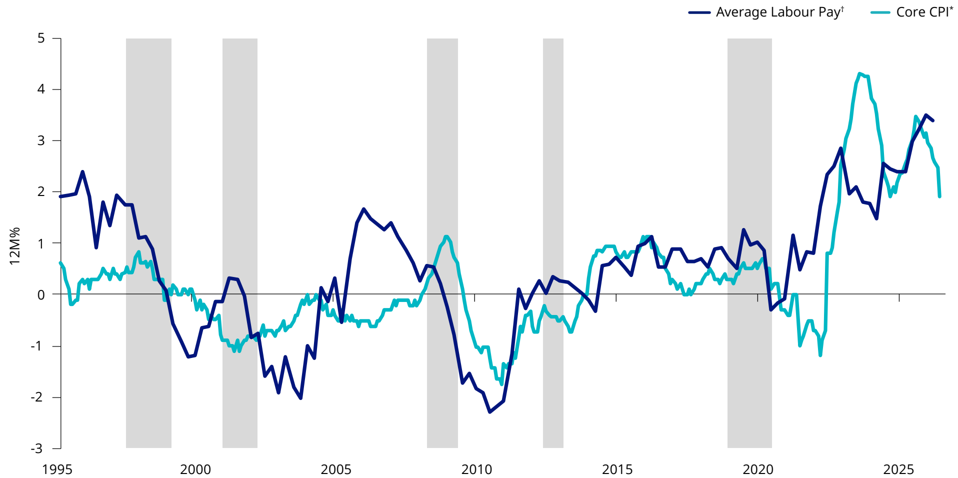
Were the Japanese Government to signal a desire for a stronger yen, it runs the risk of provoking a flight home by these funds, not to mention a collapse of remaining global Japanese carry trades.

It remains a live risk that a trickle of money coming home to Japan could easily turn into a flood, destabilising both the Japanese and global financial markets, at a time when global demand for capital is soaring.

We think the policymakers are, so far, making the right moves.

Chart 13: The BoJ is proceeding with caution

Japan core inflation and labour costs



Source: Ministry of Internal Affairs and Communications, Cabinet Office. Shaded areas indicate Japanese recessions.
*CPI Ex Fresh Food & Energy. VAT Impacts Removed. †Compensation of Labour Per Worker. 2 Year Average Growth.

Chart 14: Japan remains a massive net creditor

Net international investment position (US$ billion)

Biggest Creditors	
Germany	4,120
China	4,050
Japan	3,660
Hong Kong	1,797
Norway	1,611

Biggest Debtors	
USA	-26,230
UK	-1,122
Brazil	-981
Spain	-859
France	-801

Source: IMF. As at 31 May 2026.

Emerging markets bounce back

Emerging markets bounced back after their Iran-war-triggered sell-off over the first quarter of 2026. If you recall, emerging market bonds not only sold off in the first quarter, but they also uncharacteristically underperformed the key developed market bond benchmarks (the global aggregate and US treasuries). That all reversed in the second quarter. Emerging market bond and equity markets have bounced back. The MSCI Emerging Markets Index has outperformed developed markets (MSCI World ex Australia Index) last quarter and in 2026, while emerging markets bonds are back to having outperformed their developed market comparables.

Oil importers were the big losers in emerging markets over the past quarter, as shown by the currency performance year-to-date. Even though this captures the post-MOU (Memorandum of Understanding) market action, we think it captures the story of importer underperformance. Korea, Thailand, India and the Philippines dominate the underperformers, among the substantial benchmark weights. Commodities exporters such as Colombia and Brazil have fared better.

We think the key takeaway is that in emerging markets, there are winners and losers, whereas developed markets have mostly losers. Selectivity is key.

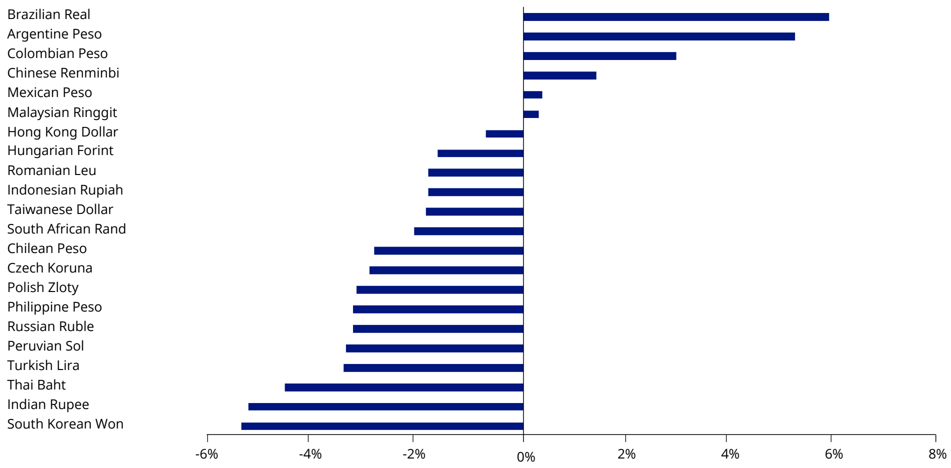
In equities, emerging markets are home to some of the best companies in their industries, including information technology and industrials.

Within bonds, emerging markets' ongoing acquittal through the recent risk episodes is best exemplified by Chinese government bonds (CGBs). The Hormuz scenario the market is enduring is arguably the biggest geopolitical risk event since the collapse of the Soviet Union (which was arguably a pro-risk event). How did US treasuries, the global risk-free asset, perform during this period? Well, they are down during this risk event, underlining why so many investors lament the performance of the "40" they've chosen for their fixed income allocation. How did CGBs perform? Up over 5%. That, we think, is the price action of a potential future/current reserve asset. We've argued before that, as central banks continue to diversify reserve assets, emerging markets' local-currency bonds are becoming more in demand. There's no better exemplar than CGBs.

Given this backdrop, the general outlook, we think, is clearer. Yields are all slightly higher due to the US treasury selloff. Emerging markets acquitted themselves well despite importers selling off. And, CGBs exhibited reserve-currency characteristics. Emerging markets have shown themselves not only to be resilient to challenges, but also to become a home to safe assets during challenges. China's policy approach is perhaps the best example of this.

Chart 15: Emerging markets have had winners and losers from the Iran war

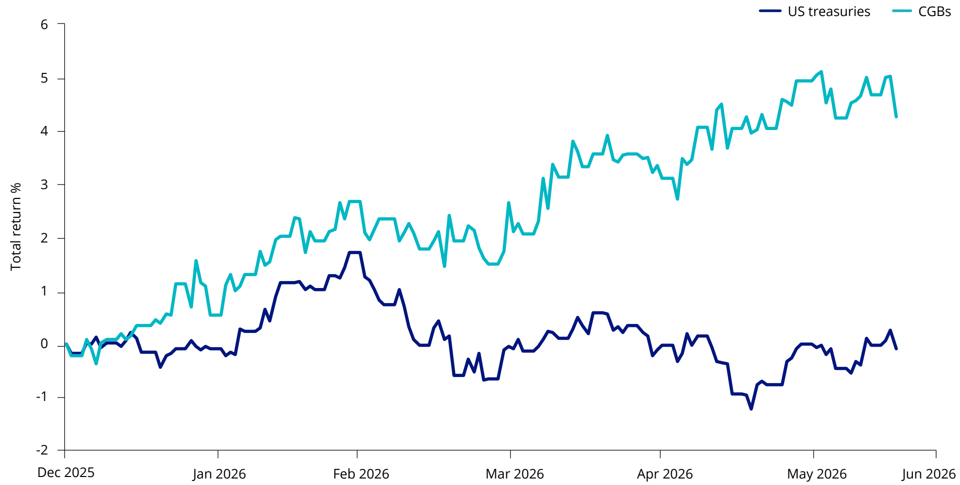
Foreign exchange spot returns (in US dollars)



Source: Bloomberg, 1 Jan 2026 to 24 June 2026.

Chart 16: Pick the safe-haven asset

US treasuries and CGBs during Iran War



Source: Bloomberg, 1 Jan 2026 to 24 June 2026, CGBs is JP Morgan Government Bond Index - Emerging Markets (GBI-EM) China $ Unhedged.

China's steady policies and steady returns

China appears to be navigating the geopolitical chaos with impressive expertise, emerging as one of the geopolitical winners from the Middle East conflict. Lower domestic negative tail risks (particularly in real estate and local governments' debt), deepening economic relations with emerging markets and energy arbitrage are all playing to Beijing's advantage. China was well-positioned for an event like the Iran war, as it had massive crude inventory and product stocks. In addition, the share of crude oil in its energy balance is below 20%, lower than that of renewables.

China's steady "policy hand" is also a reason why the market has been willing to look through lukewarm (K-shaped) domestic activity indicators, especially when some of this weakness can be attributed to specific policy initiatives of the structural kind, such as the anti-involution drive. Further, even though consumer goods and oil-related sectors lag, hi-tech manufacturing, which is a top policy priority right now, is showing strength.

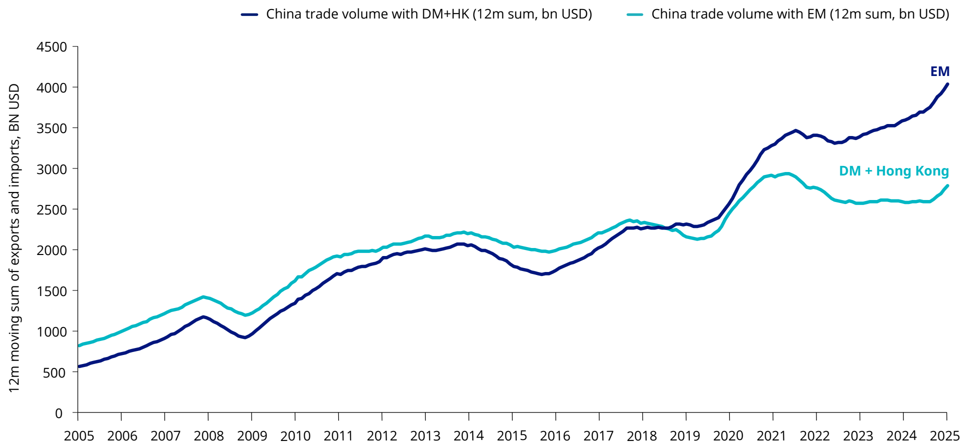
Inflation data offers additional insights, with ferrous and non-ferrous metals prices up, driven by stronger computing demand, and this has been associated with AI advancements. In the meantime, strong exports (up by 19.4% year-on-year in May) help to limit the energy shock's impact on China's growth. The uneven growth momentum is not new news for the Chinese authorities, whose preferred approach has been targeted policy support rather than broad stimulus.

China's policy confidence is visible, firstly, on the exchange rate front; authorities have guided the renminbi's daily fix stronger through much of the war. A steady renminbi, which is an important anchor for broader EM exchange rates, gives the rest of the asset classroom to breathe at a time when US Dollar strength and elevated geopolitical stress can be unnerving.

Another striking expression of China's standing is its bond market. Despite a 10-year yield of ~1.73%, Chinese government bonds have outperformed US Treasuries by 482 basis points and the EM benchmark (JP Morgan's GBI-EM Index) by 364 basis points year-to-date, delivering strong returns war-to-date as well. Its equity market, while it has lagged other emerging markets, has outperformed broader markets, with the FTSE China A50 Index outperforming the MSCI World ex Australia Index.

Chart 17: What war?

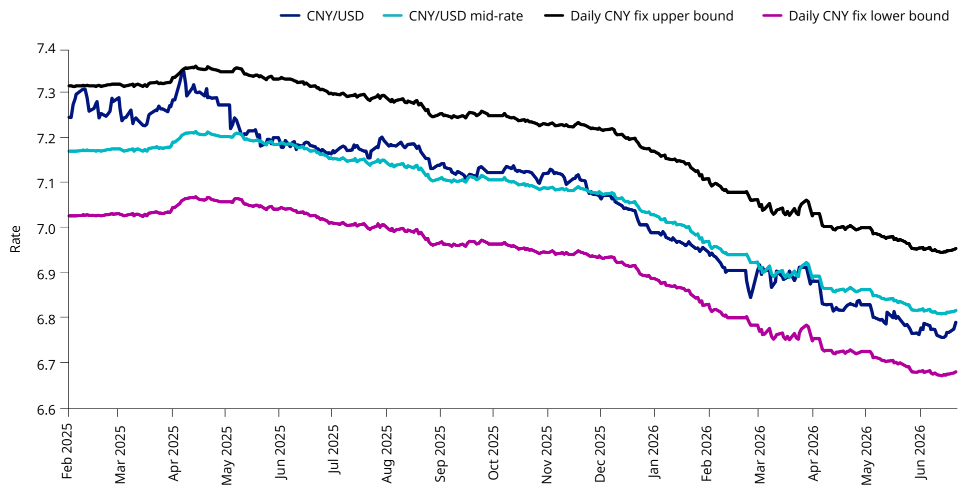
China trade volume with emerging markets and developed markets including Hong Kong



Source: Bloomberg, As of 24 June 2026.

Chart 18: A steady currency

CNY/USD spot, daily fix and trading bands



Source: Bloomberg, to 24 June 2026.

The other reserve asset and its miners

While the price of gold has fallen over the past quarter, the yellow metal continues to be in demand by its largest buyers. According to the World Gold Council's Gold Demand Trends report, global gold demand totalled 1,231 tonnes in the first quarter of 2026, representing a 2% year-over-year increase in volume terms. Higher gold prices contributed to a 74% increase in the dollar value of demand, reaching approximately US$193 billion for the quarter.

Gold's performance over the past two years has coincided with two structural factors working in tandem: persistent central bank buying and robust investment demand across bars, coins and ETFs.

Central bank buying shows no sign of slowing, with the World Gold Council's Central Bank Gold Reserves Survey 2026, which was released on 16 June 2026, showing 89% of respondents believe global central bank gold reserves will continue to grow.

Nearly three-quarters of respondents to the World Gold Council's latest survey expect the US dollar's share of global reserves to decline over the next five years. This does not mean the US dollar is about to lose its position as the world's dominant reserve currency. Like emerging markets, central banks (and governments) are diversifying as they become increasingly conscious of concentration risk within their reserve portfolios.

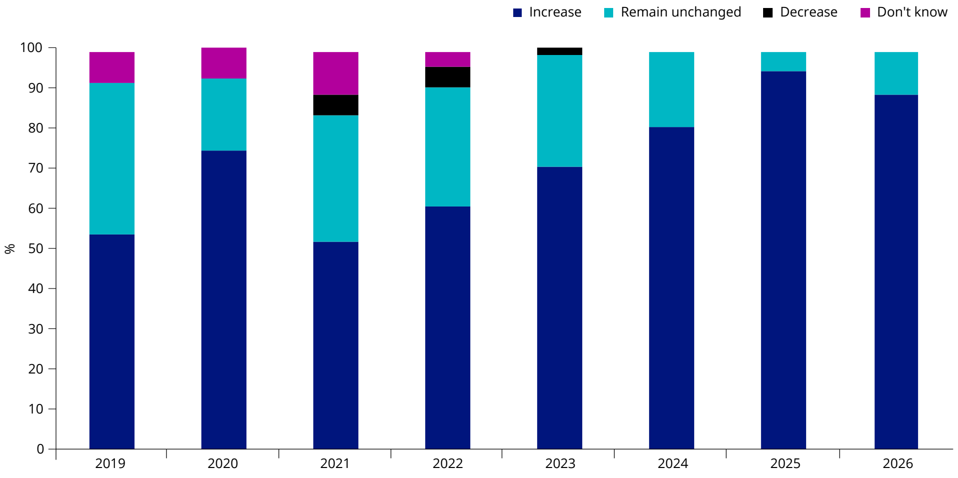
It is worth noting, too, that we once again observed that as the gold price fell, the value of its miners, as measured by the NYSE Arca Gold Miners Index, fell further. Gold mining stocks have historically outperformed the metal itself in a rising gold price environment.

At current gold prices, these companies are generating record cash flow, as evidenced by first-quarter 2026 earnings. Newmont and Agnico Eagle, the world's two largest gold miners, both reported record quarterly earnings. Agnico delivered record operating margins, underpinned by a realised gold price of US$4,861 per ounce against all-in sustaining costs of US$1,483 per ounce. Newmont posted a record free cash flow of US$3.1 billion. Both companies met or exceeded production and cost expectations and reaffirmed their full-year 2026 guidance.

Record profitability is funding expanded exploration programs and growth pipelines, while leaving ample room to reward shareholders through sustainable dividend policies and the continuation of meaningful share buyback programs. In short, the sector appears to be in strong financial and operational health, by historical standards. Despite these fundamentals, valuations across the gold mining sector remain relatively low compared to historical levels, and the recent falls pushed them lower. Current equity prices appear to reflect more conservative assumptions relative to prevailing gold prices. This may indicate potential for re-rating if market conditions remain supportive, although outcomes will depend on broader market factors.

Chart 19: Central bank demand remains a tailwind

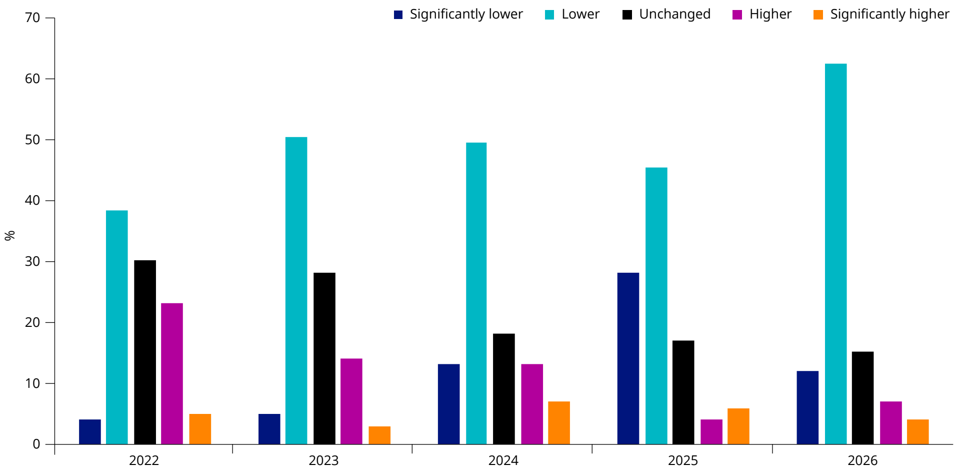
89% of respondents expect global official gold reserves to increase over the next year



Source: YouGov, World Gold Council, published 16 June 2026.

Chart 20: Another tailwind is central bank diversification

74% of respondents expect the dollar's share of global reserves to decline, with gold seen as the primary beneficiary of that reallocation



Source: YouGov, World Gold Council, published 16 June 2026.

Australia's main game

Global AI trends are playing out in the Australian economy too. Despite a fairly decent labour market, consumers remain despondent (global fuel prices have also played a role here), and data centre mania is pushing up capital expenditure.

But, for once, the main game is fiscal rather than monetary policy. At its last meeting, the RBA paused, and its statement leaned hawkish, vowing it would watch inflation. After the release of May's inflation numbers, the RBA now faces an increasingly uncomfortable trade-off.

While the increase in trimmed mean inflation is not likely to be enough to force another hike in August 2026, the case for easing has become harder to make. GDP growth is weakening, unemployment has risen to 4.5%, households are running down savings buffers, and spending is already outpacing disposable income.

Inflation is no longer just sticky, it is starting to look stubborn.

Inflation is proving difficult to bring down at the same time the economy is losing momentum. That may not mean recession, but it does mean investors should be careful about assuming the next phase will be easy. We think the terminal rate for this cycle is either the current 4.35%, or 4.6% if the RBA is forced to move once more later this year.

But for now, it is the most recent Federal budget that included tax changes that have provoked a flurry of words and action.

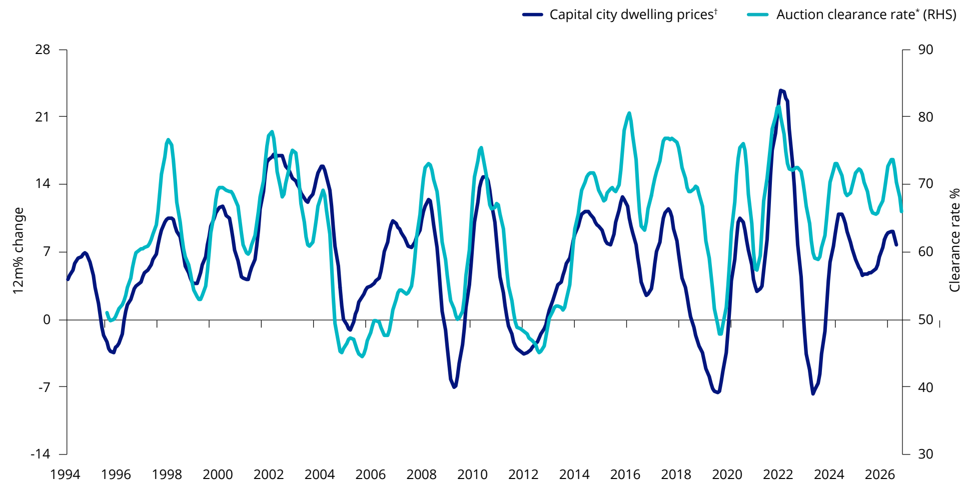
Most noticeable has been the impact on housing. After years of complaining that prices are too high, people are stressing out about prices falling. Even if the equilibrium changes are modest, asset markets can re-price (and even overshoot) pretty sharply in the short term.

We are not expecting any major scare from the adjustment, although, as ever, some pockets of over-leverage or over-commitment will come to grief. The world's most expensive banks might even face an ongoing price correction, in line with a revenue growth outlook that is either lower or riskier than pouring endless low-risk loans into property investors.

And who knows, maybe allocating capital away from housing and towards productive assets may even help Australia's productivity.

Chart 21: The chart to watch has already turned

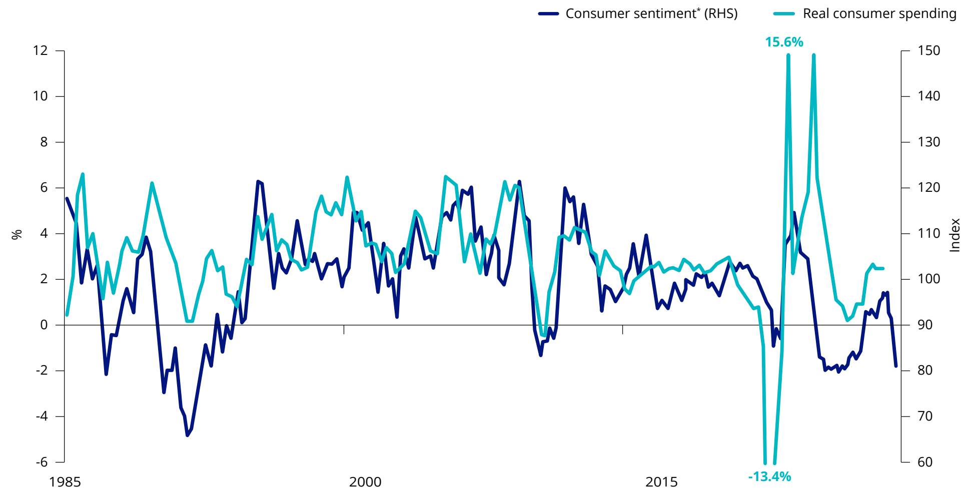
Capital city prices and auction clearance rates



Source: RP Data, PropTrack, APM, Australian Bureau of Statistics.
*Trend Linked Series, Leading by 6m. †Units & houses.

Chart 22: Sentiment and spending have diverged

Consumer spending and consumer sentiment



Source: Westpac, Melbourne Institute.
* 3MMA, Leading by 3m.

A word on the budget

The biggest factor in productivity growth is capital deepening. Australia's poor productivity performance has been driven by stagnant/falling capital to labour ratios, driven by both a growing labour force and weak capital expenditure.

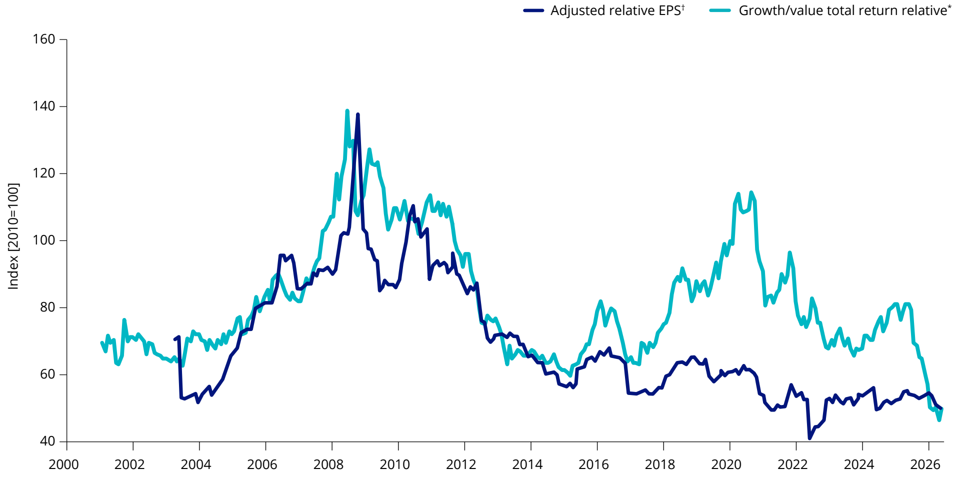
While a lot has already been written about the capital gains tax changes, we think it is worth noting:

1. It would be impossibly cumbersome to have different Capital Gains Tax (CGT) regimes for different asset classes; therefore, to correct the distortions in housing investment, other asset classes would also cop a "drive-by." Regardless, CGT is still a delayed and (however imperfectly) inflation-indexed tax charge, with quite a bit of investors' discretion on timing, and is preferable to getting caught in the PAYG net.
2. Proposed tax changes may shift equity investment preferences. That is, other things being equal, franked dividend payers got more attractive compared to no-income/ capital gains stocks. Therefore, the (long-time-coming) rotation from growth to value may have further to run.
3. The intricacies of CGT on a portfolio of disparately performing shares mean that, tax-wise, ETFs and other managed funds in many cases will have preferable tax treatment to a portfolio of shares.

The housing data is already confirming the repricing thesis in real time. National auction clearance rates have hit 47.4%, the weakest reading since the COVID v of April 2020, with Sydney at 47% and Melbourne at 51%, both running roughly 20 percentage points below the same weeks last year. For us, this is less a crisis signal and more a reallocation signal. Capital that spent decades chasing leveraged property returns is beginning, however reluctantly to look elsewhere. If CGT reform accelerates that rotation toward productive, income-generating assets, Australian equities, particularly franked dividend payers and infrastructure, stand to be structural beneficiaries. That is exactly the kind of durable, policy-driven re-rating that a patient, long-horizon investor should be leaning into, not away from.

Chart 23: Is value making a comeback?

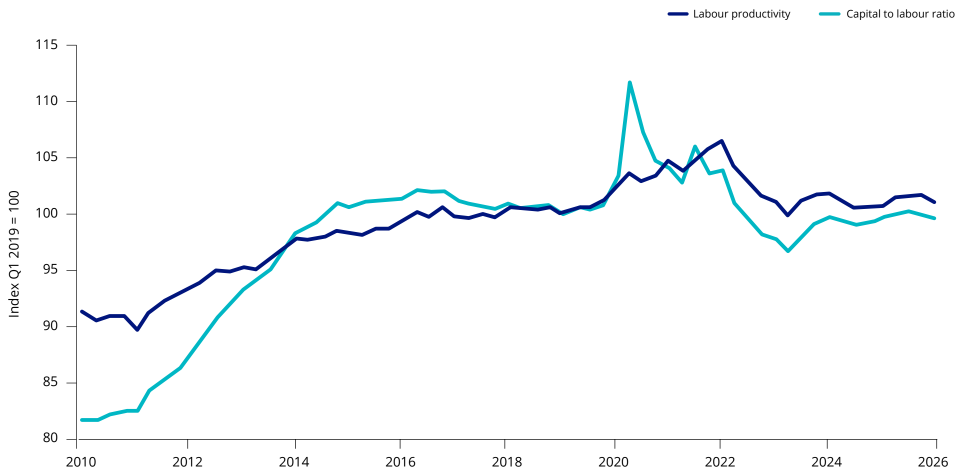
Australia growth versus value



Source: MSCI, Institutional Brokers' Estimate System/London Stock Exchange Group.
†Ratio of growth/value one year ahead forecast EPS. EPS indices adjusted for share count change implied by reinvested dividends.
*MSCI growth versus value A$ total return indices.

Chart 24: The budget will need to turn this trend

Labour productivity and capital/labour ratio



Source: Australian Bureau of Statistics, Minack Advisors, National Bureau of Economic Research.

VanEck's range of Exchange Traded Funds on ASX

	VanEck Fund	ASX code	Index	Management fees (p.a.)*
Australian Equity	Australian Equal Weight ETF	**MVW**	MVIS Australia Equal Weight Index	0.35%
	Geared Australian Equal Weight Complex ETF	**GMVW**	Geared exposure to MVW	0.35%^
	Australian Quality Plus ETF	**AQTY**	MSCI Australia IMI Quality Plus Index	0.35%
Australian Small and Mid Companies	Small Companies Masters ETF	**MVS**	MarketGrader Australia Small Cap 60 Index	0.49%
	S&P/ASX MidCap ETF	**MVE**	S&P/ASX MidCap 50 Index	0.45%
Australian Sector	Australian Property ETF	**MVA**	MVIS Australia A-REITs Index	0.35%
	Australian Resources ETF	**MVR**	MVIS Australia Resources Index	0.35%
	Australian Banks ETF	**MVB**	MVIS Australia Banks Index	0.28%
Sustainable Investing	MSCI International Sustainable Equity ETF	**ESGI**	MSCI World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped Index	0.55%
	MSCI Australian Sustainable Equity ETF	**GRNV**	MSCI Australia IMI Select SRI Screened Index	0.35%
Global Sector	Gold Miners ETF	**GDX**	NYSE Arca Gold Miners Index® (AUD)	0.53%
	FTSE Global Infrastructure (AUD Hedged) ETF	**IFRA**	FTSE Developed Core Infrastructure 50/50 Index Hedged into AUD	0.20%
	FTSE International Property (AUD Hedged) ETF	**REIT**	FTSE EPRA Nareit Developed ex Australia Rental Index AUD Hedged	0.20%
	Global Healthcare Leaders ETF	**HLTH**	MarketGrader Developed Markets (ex-Australia) Health Care AUD Index	0.45%
	Global Defence ETF	**DFND**	MarketVector Global Defence Industry (AUD) Index	0.65%
	Uranium and Energy Innovation ETF	**URAN**	MarketVector Global Uranium and Nuclear Energy Infrastructure Index	0.59%
Commodity	Gold Bullion ETF	**NUGG**	Tracks the price of gold	0.25%
International	MSCI International Quality ETF	**QUAL**	MSCI World ex Australia Quality Index	0.40%
	MSCI International Quality (AUD Hedged) ETF	**QHAL**	MSCI World ex Australia Quality 100% Hedged to AUD Index	0.43%
	MSCI Multifactor Emerging Markets Equity ETF	**EMKT**	MSCI Emerging Markets Multi-Factor Select Index	0.69%
	Morningstar International Wide Moat ETF	**GOAT**	Morningstar® Developed Markets ex Australia Wide Moat Focus Select Index™ [1]	0.55%
	Morningstar Wide Moat ETF	**MOAT**	Morningstar® Wide Moat Focus NR AUD Index™	0.49%
	Morningstar Wide Moat (AUD Hedged) ETF	**MHOT**	Morningstar® Wide Moat Focus NR AUD Hedged Index™	0.52%
	China New Economy ETF	**CNEW**	MarketGrader China New Economy Index	0.95%
	India Growth Leaders ETF	**GRIN**	MarketGrader India Growth Leaders 50 Index	0.75%
	FTSE China A50 ETF	**CETF**	FTSE China A50 Index	0.60%
	MSCI International Small Companies Quality ETF	**QSML**	MSCI World ex Australia Small Cap Quality 150 Index	0.59%
	MSCI International Small Companies Quality (AUD Hedged) ETF	**QHSM**	MSCI World ex Australia Small Cap Quality 150 100% Hedged to AUD Index	0.62%
	MSCI International Value ETF	**VLUE**	MSCI World ex Australia Enhanced Value Top 250 Select Index	0.40%
	MSCI International Value (AUD Hedged) ETF	**HVLU**	MSCI World ex Australia Enhanced Value Top 250 Select 100% Hedged to AUD Index	0.43%
	MSCI International Growth ETF	**GWTH**	MSCI World ex Australia Growth Select Index	0.40%

*Other fees and costs apply. Please see the respective PDS.

^The Fund charges a nil management fee. This is the indirect cost represented as a percentage of the gross asset value. If the average gearing level is 50%, the indirect cost will be 0.70% of the net asset value.

1. Index will change to Akros Enhanced World Ex Australia Index on 20 July 2026.

VanEck's range of Exchange Traded Funds on ASX

	VanEck Fund	ASX code	Index	Management fees (p.a.)*
Fixed Income	Australian Corporate Bond Plus ETF	**PLUS**	iBoxx AUD Corporates Yield Plus Mid Price Index	0.32%
	Australian Floating Rate ETF	**FLOT**	Bloomberg AusBond Credit FRN 0+Yr Index	0.22%
	Australian RMBS ETF	**RMBS**	ICE 0.5-3 Year AAA Large Cap Australian RMBS Index	0.29%
	Australian Subordinated Debt ETF	**SUBD**	iBoxx AUD Investment Grade Subordinated Debt Mid Price Index	0.29%
	Australian Fixed Rate Subordinated Debt ETF	**FSUB**	iBoxx AUD Fixed Investment Grade Subordinated Debt Mid Price Index	0.29%
	1-3 Month US Treasury Bond ETF	**TBIL**	Bloomberg U.S. Treasury Bills: 1-3 Months Unhedged AUD Index	0.22%
	1–5 Year Australian Government Bond ETF	**1GOV**	S&P/ASX iBoxx Australian & State Governments 1-5 Index	0.22%
	5–10 Year Australian Government Bond ETF	**5GOV**	S&P/ASX iBoxx Australian & State Governments 5-10 Index	0.22%
	10+ Year Australian Government Bond ETF	**XGOV**	S&P/ASX iBoxx Australian & State Governments 10-20 Index	0.22%
Thematic	Video Gaming and Esports ETF	**ESPO**	MVIS® Global Video Gaming and eSports Index (AUD)	0.55%
	Global Clean Energy ETF	**CLNE**	S&P Global Clean Energy Select Index	0.65%
Alternatives	Global Listed Private Equity ETF	**GPEQ**	LPX50 Index	0.65%
	Global Listed Private Credit (AUD Hedged) ETF	**LEND**	LPX Listed Private Credit AUD Hedged Index	0.65%
Digital Assets	Bitcoin ETF	**VBTC**	Tracks the price of bitcoin	0.45%

	VanEck Active Fund	ASX code	Benchmark	Management fees (p.a.)*
Emerging Market Bonds	Emerging Income Opportunities Active ETF	**EBND**	50% JPM EMBI Global Diversified Hedged AUD and 50% JPM GBI-EM Global Diversified	0.95%
Global Capital Securities	Global Capital Securities Active ETF	**GCAP**	RBA Cash Rate + 3% per annum	0.59%
Australian Equity	Australian Long Short Complex ETF	**ALFA**	S&P/ASX 200 Accumulation Index	0.39%
Cash & fixed income	Cash Plus Active ETF	**MONY**	Bloomberg AusBond Bank Bill Index	0.15%
Diversified	Core+ Diversified Balanced Active ETF	**VBAL**	Australian CPI+ 3% per annum	0.39%
	Core+ Diversified Growth Active ETF	**VGRW**	Australian CPI+ 4% per annum	0.39%
	Core+ Diversified High Growth ETF	**VHGR**	Australian CPI+ 5% per annum	0.39%

*Other fees and costs apply. Please see the respective PDS.

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